

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

Compliance Audit of
Alaska Airlines, Inc.

GOVERNMENT
DOCUMENTS DEPT

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February 11, 2009

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Mark Tipton, Audit Manager
Vivian Chu, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

February 11, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of Alaska Airlines, Inc. (Alaska Airlines). Alaska Airlines has an airline lease and use agreement from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: July 1, 2004, through June 30, 2008

Landing Fees Paid: \$12,011,373

Results:

Alaska Airlines underreported one revenue aircraft landing. As a result of this error, Alaska Airlines underpaid \$388.89 in landing fees plus \$58.33 in accrued interest, for a total of \$447.22 due to the Airport.

The responses from Alaska Airlines and the Airport are attached to this report. The Controller's Office, City Services Auditor, will work with the Airport to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

Alaska Airlines, Inc. (Alaska Airlines) is one of the airlines that entered into a lease and use agreement dated July 1, 1981, with the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for Alaska Airlines' air transportation business. The agreement requires Alaska Airlines to submit to the Airport Department (Airport) a monthly report showing Alaska Airlines' actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges Alaska Airlines a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which Alaska Airlines has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3.214 for fiscal year 2004-05, \$3.213 for fiscal year 2005-06, \$3.336 for fiscal year 2006-07, and \$3.010 for fiscal year 2007-08. Within 15 days following the end of each month, Alaska Airlines is required to submit to the Airport a Monthly Air Traffic Activity Report (MATAR), which shows each landing by aircraft type.

Scope

The purpose of this audit was to determine if Alaska Airlines complied with the reporting and payment provisions of its agreement. Our audit period was from July 1, 2004, through June 30, 2008.

Methodology

To conduct the audit, we examined the applicable terms of Alaska Airlines' agreement, and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. We tested whether Alaska Airlines accurately reported its revenue aircraft landings

and the maximum landing weights of its aircraft landed at SFO. We also determined whether Alaska Airlines had any outstanding payments due to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Alaska Airlines Failed to Report One Aircraft Landing and Consequently Underpaid Its Landing Fees

From July 1, 2004, through June 30, 2008, Alaska Airlines reported 29,579 revenue aircraft landings and paid \$12,011,373 in landing fees to the Airport. Due to an error in preparing one monthly report to the Airport, Alaska Airlines underreported one revenue aircraft landing. As a result of this error, Alaska Airlines underpaid the Airport \$388.89 in landing fees plus \$58.33 in accrued interest, for a total of \$447.22. The exhibits below show Alaska Airlines' reported landings and fees paid (Exhibit 1) and the calculation of the underpaid landing fees (Exhibit 2) and accrued interest on those fees (Exhibit 3) based on the audited number of landings.

EXHIBIT 1 Number of Reported Landings and Landing Fees Paid July 1, 2004, Through June 30, 2008

| Period/Aircraft Type | Total Landing Weight (in lbs) | # of Landings | Rate per 1,000 lbs | Landing Fees Paid |
|--|-------------------------------|---------------|--------------------|----------------------|
| July 1, 2004, through June 30, 2005 | | | | |
| Alaska Int'l - Canada | 134,606,300 | 1,080 | 3.214 | \$ 432,625 |
| Alaska Int'l - Mexico | 161,431,100 | 1,267 | 3.214 | 518,839 |
| Alaska - Domestic | <u>570,131,000</u> | <u>4,527</u> | 3.214 | <u>1,832,401</u> |
| <i>Subtotal</i> | 866,168,400 | 6,874 | | 2,783,865 |
| July 1, 2005, through June 30, 2006 | | | | |
| Alaska Int'l - Canada | 132,190,700 | 1,050 | 3.213 | 424,729 |
| Alaska Int'l - Mexico | 160,651,000 | 1,272 | 3.213 | 516,171 |
| Alaska - Domestic | <u>582,661,000</u> | <u>4,566</u> | 3.213 | <u>1,872,090</u> |
| <i>Subtotal</i> | 875,502,700 | 6,888 | | 2,812,990 |
| July 1, 2006, through June 30, 2007 | | | | |
| Alaska Int'l - Canada | 131,774,800 | 1,071 | 3.336 | 439,601 |
| Alaska Int'l - Mexico | 175,441,400 | 1,338 | 3.336 | 585,273 |
| Alaska - Domestic | <u>726,013,900</u> | <u>5,737</u> | 3.336 | <u>2,421,982</u> |
| <i>Subtotal</i> | 1,033,230,100 | 8,146 | | 3,446,856 |
| July 1, 2007, through June 30, 2008 | | | | |
| Alaska Int'l - Canada | 131,937,800 | 1,059 | 3.01 | 397,133 |
| Alaska Int'l - Mexico | 170,265,800 | 1,271 | 3.01 | 512,500 |
| Alaska - Domestic | <u>683,730,600</u> | <u>5,341</u> | 3.01 | <u>2,058,029</u> |
| <i>Subtotal</i> | 985,934,200 | 7,671 | | 2,967,662 |
| Total | 3,760,835,400 | 29,579 | | \$ 12,011,373 |

Note: Landing fees paid are rounded amounts.

Source: Airport reports on landing fees by aircraft type.

EXHIBIT 2**Calculation of Underpayment of Landing Fees
July 1, 2004, Through June 30, 2008**

| Month/Aircraft Type | Landing Weights (in lbs) | Reported Landings | Audited Landings | Over/(Under) Reported Landing | Rate per 1,000 lbs | Over/(Under) Paid Fees |
|---------------------|--------------------------------|----------------------|---------------------|-------------------------------------|-----------------------|---------------------------|
| Jan. 08/B737-700 | <u>129,200</u> | <u>41</u> | <u>42</u> | <u>(1)</u> | <u>\$ 3,010</u> | <u>\$ (388.89)</u> |
| Total | | 41 | 42 | (1) | | \$ (388.89) |

Source: Auditor's analysis.

EXHIBIT 3**Calculation of Accrued Interest for Underpayment of Landing Fees**

| Month | Underpaid Landing Fees | Interest Rate per Month | Total Months (as of December 08)* | Total Accrued Interest (Simple Interest) |
|--------------|---------------------------|----------------------------|--------------------------------------|--|
| January 2008 | \$388.89 | 1.5% | 10 | \$58.33 |

Note:* Period of only 10 months used to calculate accrued interest because bills for January are sent in February and are due in March.

Source: Auditor's analysis.

Recommendations

The Airport should take the following actions:

1. Request Alaska Airlines to pay \$447.22 for underpaying its landings fees by \$388.89 during the audit period, including \$58.33 in accrued interest on that underpayment.
2. Request Alaska Airlines to review its records carefully in the future to determine the correct number of landings entered on the Monthly Air Traffic Activity Reports before submitting them to the Airport.

ATTACHMENT: ALASKA AIRLINES' RESPONSE



February 3, 2009

Robert Tarisa
Deputy Audit Director

In reviewing the audit performed by Vivian Chu, I agree we under reported one flight in error in January 2008. The amount due \$388.89 plus interest of \$58.33 totaling \$ 447.22 has been submitted to our accounting department for payment.

Payment has been requested to the airport per your instructions. Please thank Ms. Chu for her patience and diligence in conducting this audit, she was very pleasant to work with and fitting her schedule to our office's.

Respectfully,

A handwritten signature in black ink, appearing to read "Josh Birlew".

Josh Birlew
Manager

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ATTACHMENT: AIRPORT'S RESPONSE



San Francisco International Airport

P.O. Box 809 *
San Francisco, CA 94128
Tel: (415) 821-5000
Fax: (415) 821-5005
www.flysfo.com

February 3, 2009

AIRPORT
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CITY AND COUNTY
OF SAN FRANCISCO

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Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Alaska Airlines

Dear Robert:

The Airport agrees on the audit findings to invoice Alaska Airlines ("Alaska") for the underpayment of its landing fees in the amount of \$388.89. However, after further review of the audit findings, the Airport will waive the \$58.33 in accrued interest as a result of the under payment. The reason for the waiver is because during the audit * period from July 1, 2004 through June 30, 2008 on payment of \$12,011,373, the \$388.89 represents a very small error on the part of our long term business partner - Alaska Airlines.

Further, the Airport will advise Alaska to review its records thoroughly when reporting future aircraft landings to prevent such errors from occurring again.

If you have any questions, please feel free to call me at (415) 821-4533.

Sincerely,

A handwritten signature in dark ink, appearing to read "Teresa Rivor", with a stylized flourish at the end.

Teresa Rivor
Senior Property Manager
Aviation Management

Attachment

| Recommendation | Responsible Agency | Response |
|--|--------------------|--|
| <p>1. Request Alaska Airlines to pay \$447.22 for underpaying its landings fees by \$388.89 during the audit period, including \$58.33 in accrued interest on that underpayment.</p> | <p>Airport</p> | <p>Airport concurs on recommendation to invoice Alaska for \$388.89 for the underpayment of its landing fees. However, the Airport will waive the \$58.33 for accrued interest on the underpayment in consideration of the fact that during the reporting period of July 1, 2004 through June 30, 2008 on payment of \$12,011,373, the \$388.89 represents a very small error on the part of our long term business partner – Alaska Airlines.</p> |
| <p>2. Request Alaska Airlines to review its records carefully in the future to determine the correct number of landings entered on the Monthly Air Traffic Activity Reports before submitting them to the Airport.</p> | <p>Airport</p> | <p>Airport staff concur with the recommendation, and will prepare a letter to remind Alaska to be more careful in their reporting of Monthly Air Traffic Activity Report before submitting them to the Airport.</p> |

